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National City Bank of New York.

Reprint of the October 1912 circular of...

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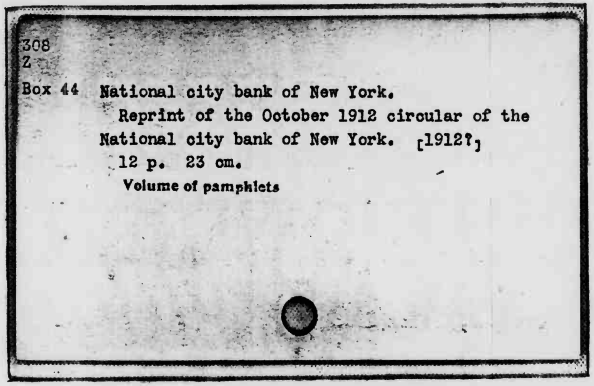
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# Reprint of the October 1912 Circular of the National City Bank of New York

Sent out with the Compliments of George H. Paine, Philadelphia

*From the October, 1912, Circular of the National City Bank of New York.*

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NEW YORK, October, 1912.

During the month past there has been much discussion as to whether the Secretary of the Treasury will undertake to aid money conditions incident to moving crops. The conjunction of three important factors has naturally brought such a question forward with prominence. The crops are large, surpassing all previous records; bank reserves in the great centers are rather low; and last, but not least, the Treasury has the money. It has a good round sum locked up and withheld from public use and could spare temporarily as much as $50,000,000 without impairing its ability to meet the ordinary requirements. The cash balance stands close to $85,000,000, not including $24,000,000 subsidiary silver coin.

### TREASURY AID FOR CROP MOVING.

Up to this time no such pressing situation has developed as would urgently require the customary Treasury aid. It is true rates for money have advanced as the demand has increased, but rates are high only in comparison with recently low levels. They have as yet not been higher than those frequently reflected when business is normally active.

Before the crops are moved, however, the situation may change to such an extent as to demand the release of some portion of the large surplus of cash now held in the Treasury. As pointed out in the August number of this circular, it has been the practice of the Treasury for three-quarters of a century in times of deficient money supply to

use any surplus the Treasury may have to aid in moving crops. Ordinarily this has been done by depositing public funds in the depositary banks, taking as security therefor United States bonds. When the supply of United States bonds has not been sufficient for the purpose the Secretary of the Treasury has resorted to other securities, such as State, municipal and railroad bonds. A few years ago there were many millions of securities other than United States bonds held by the Treasury against public moneys lodged with the banks. With the exception of a few hundred thousand State, municipal and railroad bonds held by the Department temporarily against District of Columbia taxes, they have all been withdrawn.

No loss has ever been sustained by the Treasury by reason of the character of the securities accepted by it on account of public deposits. Whenever the Government has departed from its general and preferable practice of requiring its own obligations as security it has surrounded the acceptance of other securities with most careful safeguards and has required ample margins.

Another method of releasing Treasury surplus funds has been to anticipate interest on the public debt. This form of relief has never been appreciably effective. Conditions have usually been too acute to be relieved by the comparatively small sums thus set free. The method has generally been employed in the past in conjunction with other methods for getting money out of the Treasury.

Another means of disbursement formerly employed to advantage in times of money stress was to purchase or redeem United States bonds. This was a favorite method ten and twenty years ago during periods of extraordinarily excessive revenues. It served the double purpose of relieving stringency and of reducing the public debt and the interest thereon. Such purchases were made under the authority of an old statute requiring the Secretary of the Treasury to make investments for the sinking fund when



the revenue afforded a surplus. The act was a dead letter, however, except in those years when Treasury accumulations were closely related to a short supply of money available during the crop moving season or during periods of unusual business activity.

None of the three methods mentioned is so effective as depositing money in the banks. The latter are immediately in touch with the demand for crop moving and much more closely related to it than many of the holders of Government bonds. Besides when the Treasury purchases bonds, it parts with its funds altogether, and cannot secure their return to the Treasury as is done by withdrawing public moneys from bank depositaries.

There are other methods of relief than the three already given. The facilitation of gold imports is one of them. This is done by making temporary deposits of public funds with banks for the purpose of enabling them to purchase foreign bills against which gold must be shipped, the banks returning the deposits to the Treasury upon the arrival of the gold. The first time this method was employed it probably saved the country from disaster. It was inaugurated a few days before the San Francisco disaster. The gold brought into the country at that time, about $25,000,000, was sufficient to offset the depletion of reserves in the centers caused by withdrawals on the part of Pacific Coast and interior banks. Again it was most effectively used in relieving the panic of 1907.

Still another Treasury relief measure is to stimulate national bank circulation. This also was effectively used to allay the panic of 1907. To assist banks in taking out additional circulating notes, the Secretary of the Treasury permitted depositary banks to substitute State, municipal and railroad bonds in their depositary accounts, thus releasing United States bonds which in turn could be used to secure national bank circulation issued by the depositary banks or by other national banks to whom the United States bonds were loaned.

It would be an ideal condition if the Treasury at all times could be maintained without its becoming a factor in the money market situation. So long as a large part of Government receipts is paid directly into the Treasury, instead of into the banks, it will be impossible to reach this ideal condition. For many years all Internal Revenue receipts, amounting now to more than $300,000,000 a year, have been collected by the banks. In 1907 Congress passed an act providing a similar method of collection as to custom duties. These also amount to more than $300,000,000 a year; but this act has never been availed of so far as Sub-Treasury cities are concerned. Customs receipts are now deposited in national bank depositaries at all points except Washington and the nine SubTreasury cities of New York, Philadelphia, Boston, Baltimore, Cincinnati, Chicago, St. Louis, New Orleans and San Francisco. The bulk of the customs, or roundly $200,000,000 a year, is collected at ports where there are Treasury offices and deposited directly in the Sub-Treasuries. If all customs receipts were collected through the banks and Treasury disbursements made through the banks as well, it is obvious there would never confront the Treasury such a problem as is likely to be presented every autumn. It is believed to be within the power of the Treasury to adopt this practice without further legislation.

By the Act of May 30, 1908, known as the Emergency Currency Act, which was born of the currency panic of 1907, still another method of relief was provided. Fortunately it has never been called into use. This Act permits the organization of National Currency Associations made up of geographical groups of national banks. Any bank belonging to such an association may, subject to certain limitations, obtain additional circulation to an amount not exceeding seventy-five per cent. of the cash value of the securities or commercial paper deposited with the association. The Secretary of the Treasury is by this law authorized to approve such an issue of notes if in his judgment



business conditions in the locality demand additional circulation. Furthermore, irrespective of the method provided for issuing notes through the National Currency Associations, individual banks may issue additional notes against State and municipal bonds at 90 per cent. of their market value up to par, when in the judgment of the Secretary of the Treasury business conditions in the locality demand additional circulation.

Since the passage of the Emergency Currency Act, the following National Currency Associations have been organized and approved:

| | *Name.* | *Territory Included* | *Number of Banks* | *Capital* | *Surplus* |
|---|---|---|---|---|---|
| 1. | The National Currency Association of Washington, D. C. | Washington, D. C. | 11 | $ 5,202,000 | $ 3,942,000 |
| 2. | The National Currency Association of the City of New York. | Boroughs of Manhattan, the Bronx, Queens, Brooklyn and Richmond, of the City of New York and Long Island. | 26 | 110,050,000 | 117,425,000 |
| 3. | The National Currency Association of the City of Philadelphia. | County of Philadelphia. | 28 | 20,825,000 | 33,075,000 |
| 4. | The National Currency Association of the State of Louisiana. | State of Louisiana. | 10 | 6,100,000 | 3,340,000 |
| 5. | The National Currency Association of the City of Boston. | City of Boston. | 15 | 18,450,000 | 15,650,000 |
| 6. | The National Currency Association of Georgia. | State of Georgia. | 20 | 6,106,000 | 4,467,000 |
| 7. | The National Currency Association of the City of Chicago. | City of Chicago. | 11 | 41,250,000 | 22,350,000 |

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| | *Name* | *Territory Included . . . .* | *Number of Bank* | *Capital* | *Surplus* |
|---|---|---|---|---|---|
| 8. | The National Currency Association of St. Louis. | City of St. Louis, Mo., St. Louis County, Mo., City of East St. Louis, Ill., Granite City and Madison, Ill. | 11 | 19,660,000 | 12,145,000 |
| 9. | The National Currency Association of the Twin Cities, St. Paul, Minn. | Cities of St. Paul and Minneapolis, and territory contiguous thereto in the State of Minnesota and the western half of the State of Wisconsin. | 14 | 10,650,000 | 9,025,000 |
| 10. | The National Currency Association of the City of Detroit. | Counties of Wayne, Washtenaw, Jackson, Ingham, Livingston, Oakland, Macomb, St. Clair, Lapeer, Genesee, Shiawassee, Saginaw, Bay, Tuscola, Sanilac, Huron, State of Michigan. | 16 | 6,725,000 | 2,945,000 |

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| | Name | Territory Included | Number of Bank | Capital | Surplus |
|---|---|---|---|---|---|
| 11. | The National Currency Association of Albany, Rensselaer, and Schenectady Counties, N. Y. | Counties of Albany, Rensselaer, and Schenectady, New York. | 11 | 3,560,000 | 3,310,000 |
| 12. | The National Currency Association of Kansas City and St. Joseph. | Kansas City, Mo., Kansas City, Kansas, St. Joseph, Mo. | 10 | 5,900,000 | 3,700,000 |
| 13. | The National Currency Association of the City of Baltimore, Md. | State of Maryland. | 19 | 13,290,710 | 7,920,010 |
| 14. | The National Currency Association of Cincinnati, Ohio. | Cincinnati and Norwood, Ohio. | 10 | 14,300,000 | 7,400,000 |
| 15. | The National Currency Association of Dallas, Texas. | Counties of Dallas, Ellis, Kaufman, and Collin. | 14 | 3,750,000 | 2,437,000 |
| 16. | The National Currency Association of Alabama. | State of Alabama. | 25 | 5,630,000 | 3,232,500 |
| 17. | The National Currency Association of Denver, Colorado Springs and Pueblo. | City and County of Denver, and the Counties of Arapahoe, Douglas, Elbert, El Paso and Pueblo. | 16 | 4,575,000 | 4,580,500 |
| 18. | The National Currency Association of Los Angeles. | City of Los Angeles. | 12 | 6,025,000 | 2,825,000 |



## Bank Examiners' and Directors' Joint Examinations.

About a year ago the Comptroller of the Currency issued instructions to his examiners to include in their reports of examinations a certificate of solvency. If for any reason this certificate could not be given unqualifiedly, examiners were directed to convene the board of directors with a view to securing prompt correction of all unsatisfactory conditions disclosed by the examination. At that time there was a large number of banks throughout the country in which the majority of directors were not local men, and when the examiner asked for a board meeting the directors could not be convened readily because they did not live in the town in which the bank was located. The Comptroller appealed to these banks to reorganize their boards so that a majority of the members could be convened without delay, and practically every one of the banks has acted favorably upon the suggestion. Comptroller Murray has met with such encouragement in working out his plan to bring about the desired cooperation between directors and examiners that he now proposes to take another step along this line in a final effort to make bank examinations as effective as they can be made under the present law. The Comptroller has accordingly announced that hereafter the board of directors in all country banks is to be convened by the examiner and the examination of the bank's assets is to be made in their presence and with their help and cooperation. If an examiner finds any matters for criticism, it is desired that the directors should know of it immediately and enter into an agreement with the Comptroller, through the examiner, for the prompt correction of such conditions. The experience of the Comptroller's office has been that this can be done satisfactorily only by having the board of directors meet with the examiner.

Another important reason for convening the board of directors of country banks at each examination is to improve the standard of the examinations which are made by the

examining committee of the directors. Many banks have boards of directors who are not sufficiently well informed in the methods to be pursued in making such examinations, and the Comptroller has instructed his examiners to go over with them the plan of examination which he outlined a short time ago, for the purpose of explaining to the board just how this examination should be made and what points should be especially covered and reported to the Comptroller's office.

The concentration of the funds of banks in concerns controlled by the bank's officers and directors is another matter that the Comptroller has directed his examiners to carefully inquire into hereafter. The Comptroller will insist that the books of all corporations, firms or concerns in which the officers and directors of banks are interested, and which are extensive borrowers from the bank, be open to the examiner so that he may obtain such information as will enable him to determine whether or not they are worthy of the credit extended. In the past the examiner has been obliged to rely upon the mere statements of the officers that the loans were good and that the concerns were in good financial standing; but if the officers and directors unduly concentrate the funds of a bank in their own enterprises, the Comptroller feels that in as much as he is charged with the duty of protecting the depositors, he is entitled to know at first hand whether the concerns in which the funds of the bank are invested are paying or losing ventures.

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